

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2007

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A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Detroit Community Schools, a Public School Academy

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the Detroit Community School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Detroit Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools as of June 30, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of Detroit Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Detroit Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Community Schools' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hungerford & Co.

November 9, 2007

Detroit Community Schools

Management's Discussion and Analysis

Detroit Community Schools, a Michigan Public School Academy, has the legal standing of a "School District", but will be referred to as "the Academy". This section of the Academy's annual financial report represents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's financial statements which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Academy's financial statements provide information about the activities of the Academy, and presents both an aggregate view of the Academy's finances and a longer term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, the statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy's basic financial statements by providing information about the major funds; general fund, the building and site fund, the debt retirement fund and all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Academy acts solely as agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

District-wide Financial Statements
Fund Financial Statements

Notes to Financial Statements

Budgetary Information for the General Fund
(Required Supplemental Information)

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Detroit Community Schools

Management's Discussion and Analysis (continued)

Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)

These two statements report the Academy's net assets, the difference between assets and liabilities, as reported in the statement of net assets, as one way to measure the Academy's financial health or financial position. Over time, increases and decreases in the Academy's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results.

The Academy again incurred a decrease in net assets, which was \$261,905 for the current year. The Academy does not consider this significant because of the huge investments the Academy makes and its continued growth. The State of Michigan uses a blended student count to fund the Academy, so as the enrollment rises, there is a timing lag in the amount of funds provided. We may have more students, but we are not funded 100% for those students. We have one more grade to add to the school next year and then that difference will modify and the depreciation in net assets can be reversed. The Academy's goal is to provide services to our students, not to generate profit as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, athletics, and food services. Unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities. The Academy also has building and site activities, which are included, but these are generally supported through debt.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by State law. However, the Academy establishes other funds to help it control and manage money or to show it is meeting legal responsibilities for using certain grants, or other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in the separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2007:

Table I	Governmental Activities (in millions)	
	2006	2007
Assets		
Current and other assets	\$ 4.89	\$ 3.36
Capital assets -		
Net of accumulated depreciation	<u>10.83</u>	<u>11.59</u>
Total assets	<u>\$ 15.72</u>	<u>\$ 14.95</u>
Liabilities		
Current liabilities	\$ 2.02	\$ 2.01
Long-term obligations	<u>13.54</u>	<u>13.05</u>
Total liabilities	<u>\$ 15.56</u>	<u>\$ 15.06</u>
Net Assets		
Invested in capital assets -		
Net of related debt	\$ (1.49)	\$ (2.02)
Restricted for debt service	1.58	1.06
Unrestricted (Deficit)	<u>0.07</u>	<u>0.85</u>
Total net assets	<u>\$ 0.16</u>	<u>\$ (0.11)</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$ (.11) million at June 30, 2007. Capital assets, net of related debt, compares the original cost, less depreciation of the Academy's capital assets to long-term obligations which were used to finance the acquisition of those assets.

The \$.85 million in unrestricted net assets represents the *accumulated* results of all past years' operations. The operating results of the General and Building and Site Funds will have a significant impact on the change in unrestricted net assets from year to year. During the year ended June 30, 2006, the Academy acquired and completed renovation of buildings to be used for future educational facilities. The \$2.02 deficit in net capital assets is the result of the prefunding of interest payments on the bonds for 2005, 2006 and part of 2007, and the debt service reserve required under the bond agreement.

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for year ended June 30, 2007.

Table 2

	<u>Governmental Activities (in millions)</u>	
	<u>2006</u>	<u>2007</u>
Revenues		
Program revenue:		
Charges for services	\$ 0.00	\$ 0.02
Grants and categoricals	0.61	0.90
General revenue:		
State foundation allowance	4.38	5.65
Other	<u>0.18</u>	<u>0.14</u>
Total revenues	<u>\$ 5.17</u>	<u>\$ 6.71</u>
Functional/Program Expenses		
Instruction	\$ 2.44	\$ 2.72
Support services	2.35	3.16
Food services	0.10	0.16
Athletics	0.07	0.14
Interest on long term obligations	<u>0.64</u>	<u>0.79</u>
Total expenses	<u>\$ 5.60</u>	<u>\$ 6.97</u>
Decrease in Net Assets	<u>\$ (0.43)</u>	<u>\$ (0.26)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$6.05 million vs \$4.99 million last year. Certain activities were partially funded from those individuals that benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals (\$.9 million current and \$.61 million prior). We paid for the remaining "public benefit" portion of our governmental activities with \$5.65 million in 2007 and \$4.38 million in 2006 in State Foundation Allowance, and with our other revenues, such as tuition and general entitlements.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers, via the State Foundation, and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's general fund experienced a decrease of \$.71 million generally due to the \$1.1 million in capital expenditures.

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy's Funds (continued)

The Academy's Building and Site fund accounted for the activities related to the acquisition and renovation of their future educational facilities. These activities were funded by bonds which were issued in August 2006.

The Academy started a debt retirement fund to account for the resources to retire its bonds in 2006. As part of the bond issue, \$.85 million is to be held in a debt retirement reserve fund. This reserve is included in the debt retirement fund. Beginning in 2007, the general fund began to transfer funds to the debt retirement fund to pay amounts due under the bond agreement.

Our special revenue funds, food service and athletics, continue to require general fund support because of their small size. Revenues in both areas have increased over the prior years.

General Fund Budgetary Highlights

Over the course of the year, the Academy can revise its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure the expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were significant changes to the original budget because of the increase in students and expenditures in connection with activities related to the acquisition of facilities and equipment.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the Academy had \$11.59 million invested in a broad range of capital assets, including land and building, furniture and equipment, computers and vehicles. This amount represents a net increase (including additions and disposals) of approximately \$.77 million from last year. This included \$.3 million in costs in connection with the renovation of Academy facilities. The Academy also acquired \$.82 million in computers, equipment and vehicles.

	2006	2007
Land and construction in progress	\$ 9,208,614	\$ 132,754
Building and improvements	0	9,505,440
Land improvements	0	83,799
Furniture and equipment	1,784,803	2,562,519
Vehicles	71,841	109,296
Total capital assets	11,065,258	12,393,808
Less accumulated depreciation	238,987	802,375
Net capital assets	\$ 10,826,271	\$ 11,591,433

We present more detailed information about our capital assets in the notes to the financial statements.

Detroit Community Schools

Management's Discussion and Analysis (continued)

Capital Asset and Debt Administration (continued)

Debts

The Academy had \$1.26 and \$1.23 million in current and \$13.05 and \$13.54 million in long-term obligations as of June 30, 2007 and 2006, respectively. Various financing agreements were issued during the year. Two state aid notes, \$.8 and \$.71 million were issued to help fund current activities.

Economic Factors and Next Year's Budgets and Rates

Based on early enrollment data for the subsequent school year, we anticipate that the fall student count will be greater than the estimates used in creating the 2007 fiscal year budget. Once the final student count and related pupil funding is validated, the budget will be amended. State law *requires* the Academy to amend the budget if actual Academy resources are not sufficient to fund the original appropriation.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, 12675 Burt Rd. Detroit, MI. 48223

DETROIT COMMUNITY SCHOOLS**STATEMENT OF NET ASSETS**

June 30, 2007

**Governmental
Activities****ASSETS****CURRENT ASSETS**

Cash	\$ 1,527,485
Accounts receivable	10,712
Due from other governmental units	1,141,514
Prepaid expenditures	684,138

Total current assets 3,363,849

NONCURRENT ASSETS

Capital assets	12,393,808
Less accumulated depreciation	<u>(802,375)</u>

Total noncurrent assets 11,591,433

TOTAL ASSETS \$ 14,955,282

LIABILITIES AND NET ASSETS**LIABILITIES****CURRENT LIABILITIES**

Accounts payable	\$ 493,063
Notes payable (Note 6)	710,300
Long-term obligations, due within one year (Note 7)	554,931
Payroll withholdings	39,106
Accrued expenditures	157,265
Salaries payable	43,615
Deferred revenue (Note 5)	<u>11,105</u>

Total current liabilities 2,009,385

NONCURRENT LIABILITIES

Long-term obligations, due in more than one year (Note 7)	<u>13,052,285</u>
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NET ASSETS

Investment in capital assets, net of related debt	(2,015,783)
Restricted for debt service	1,062,685
Unrestricted	<u>846,710</u>

Total net assets (106,388)

TOTAL LIABILITIES AND NET ASSETS \$ 14,955,282

See notes to financial statements.

DETROIT COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net(Expense) Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 2,721,985	\$ 0	\$ 804,296	\$ (1,917,689)
Support services	3,155,515	0	0	(3,155,515)
Food service activities	162,732	3,390	93,907	(65,435)
Athletics	141,267	16,047	0	(125,220)
Interest on long-term obligations	785,959	0	0	(785,959)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 6,967,458	\$ 19,437	\$ 898,203	(6,049,818)
GENERAL REVENUES				
State aid, unrestricted				5,645,709
Other income				142,204
TOTAL GENERAL REVENUES				5,787,913
CHANGE IN NET ASSETS				(261,905)
NET ASSETS, July 1, 2006				155,517
NET ASSETS, June 30, 2007				\$ (106,388)

See notes to financial statements.

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General Fund	Building and Site Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 468,419	\$ 0	\$ 1,059,066	\$ 0	\$ 1,527,485
Accounts receivable	7,093	0	3,619	0	10,712
Due from other governmental units	1,131,602	0	0	0	1,131,602
Prepaid expenditures	25,053	0	0	0	25,053
TOTAL ASSETS	\$ 1,632,167	\$ 0	\$ 1,062,685	\$ 0	\$ 2,694,852
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 493,063	\$ 0	\$ 0	\$ 0	\$ 493,063
State aid note	710,300	0	0	0	710,300
Payroll withholdings	39,106	0	0	0	39,106
Accrued expenditures	45,104	0	0	0	45,104
Salaries payable	43,615	0	0	0	43,615
Deferred revenue	11,105	0	0	0	11,105
TOTAL LIABILITIES	1,342,293	0	0	0	1,342,293
FUND BALANCE					
Reserved for prepaid expenditures	25,053	0	0	0	25,053
Unreserved:					
Undesignated	264,821	0	1,062,685	0	1,327,506
TOTAL FUND BALANCE	289,874	0	1,062,685	0	1,352,559
TOTAL LIABILITIES AND AND FUND BALANCE	\$ 1,632,167	\$ 0	\$ 1,062,685	\$ 0	\$ 2,694,852

See notes to financial statements.

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 1,352,559**

Amounts reported for governmental activities in the statement
of net assets are different because

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds

The cost of the capital assets is 12,393,808
Accumulated depreciation is (802,375)

Other long-term assets not available to pay current period
expenditures therefore deferred in the governmental funds 9,912

Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds (13,607,216)

The cost of issuance of the bonds is an expenditure in the
governmental funds, but these costs are capitalized and
spread over the life of the debt in the statement of net assets

Cost of issuance \$ 705,727
Amortization (46,642) 659,085

Interest in accrued expenses is not included as a liability in
the governmental funds (112,161)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ (106,388)**

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2007

	General Fund	Building and Site Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Totals
REVENUES					
Local sources	\$ 77,989	\$ 2,183	\$ 62,032	\$ 19,437	\$ 161,641
State sources	6,002,323	0	0	4,838	6,007,161
Federal sources	526,949	0	0	89,069	616,018
TOTAL REVENUES	6,607,261	2,183	62,032	113,344	6,784,820
EXPENDITURES					
Instruction	2,690,040	0	0	0	2,690,040
Support services	2,553,918	0	1,500	0	2,555,418
Food service activities	0	0	0	162,732	162,732
Athletics	0	0	0	141,267	141,267
Debt service					
Principal	432,723	0	0	0	432,723
Interest	122,791	0	672,965	0	795,756
Capital outlay	1,097,111	219,660	0	11,780	1,328,551
TOTAL EXPENDITURES	6,896,583	219,660	674,465	315,779	8,106,487
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(289,322)	(217,477)	(612,433)	(202,435)	(1,321,667)
OTHER FINANCING SOURCES (USES)					
Proceeds from debt	70,827	0	0	0	70,827
Prior period adjustments, nonmaterial	(44,319)	0	0	0	(44,319)
Operating transfers:					
Incoming	0	146,125	100,254	202,435	448,814
Outgoing	(448,814)	0	0	0	(448,814)
TOTAL OTHER FINANCING SOURCES (USES)	(422,306)	146,125	100,254	202,435	26,508
NET CHANGE IN FUND BALANCE	(711,628)	(71,352)	(512,179)	0	(1,295,159)
FUND BALANCE, July 1, 2006	1,001,502	71,352	1,574,864	0	2,647,718
FUND BALANCE, June 30, 2007	\$ 289,874	\$ 0	\$ 1,062,685	\$ 0	\$ 1,352,559

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (1,295,159)**

Amounts reported for governmental activities in the statement
of activities are different because

Governmental funds reported capital outlays as expenditures,
but in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation.

Capital outlay	\$ 1,328,551	
Depreciation expense	<u>(563,388)</u>	765,163

Revenues reported in the statement of activities that do not provide
current financial resources and are not reported as revenues
in the governmental funds

Prior year	\$ (89,178)	
Current year	<u>9,911</u>	(79,267)

Some of the capital outlay was financed with long-term obligations. The
long-term obligations are not revenue on the statement of activity,
but constitute long-term obligations in the statement of net assets. (70,827)

The cost of issuance of the bonds was an expenditure in the
governmental funds, but these costs are capitalized and
spread over the life of the debt in the statement of net assets. (24,335)

Repayment of loan principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long-term obligations) 432,723

Interest on long-term obligations not accrued in Governmental funds. 9,797

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (261,905)**

DETROIT COMMUNITY SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

Agency Fund
Internal
Activities

ASSETS

Cash	\$	5,590
Accounts receivable		<u>6,741</u>
TOTAL ASSETS	\$	<u>12,331</u>

LIABILITIES

Accounts payable	\$	0
Due to student organizations		<u>12,331</u>
TOTAL LIABILITIES	\$	<u>12,331</u>

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

The Academy has a contract with the Saginaw Valley State University Board of Control which expires on June 30, 2012. The Academy is governed by a Board of Directors (Board) appointed by the University. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. It is considered to be a potential component unit of the University because the University appoints the Board of the Academy, but has no financial benefit or burden relationship with the Academy.

ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS

The **academy-wide** financial statements include the statement of net assets and the statement of activities. These statements report all nonfiduciary activities of the primary government. Governmental activities are generally supported by taxes and intergovernmental revenues, and are reported separately from business-type activities which are financed in whole or in part by fees charged to external parties for goods and services. The focus of the academy-wide statements is the primary government.

The **statement of net assets** presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets.

The **statement of activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter is excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Academy-wide financial statements

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated for the academy-wide financial statements.

Governmental fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using economic resources measurement focus and the accrual basis of accounting.

Financial statement presentation

The Academy reports the following major governmental funds:

The general fund is the Academy's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.

The building and site fund is used to account for the proceeds from the sale of bonds and other revenues to be used for the acquisition and renovation of fixed assets.

For capital project activities funded with bonds issued after May 1, 1994, the Academy has complied with the applicable provisions of section 1351a of the State of Michigan School Code.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Financial statement presentation (continued)

The **debt service fund** accounts for the resources accumulated for the retirement of general long-term debt principal, interest and related costs.

In addition, the Academy reports the following fund types:

Special revenue funds account for specific revenue sources that are legally restricted to expenditure for specified purposes. The athletic activities and school lunch are special revenue funds.

Fiduciary funds are used to account for assets held by the Academy in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature and do not involve measurement of results of operations.

The Academy maintains one fiduciary fund. The internal activities represents the activities of the student and parent groups for school and related purposes and is considered an agency fund.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

Cash and cash equivalents include cash on hand and in local banks. Cash and **investments** are reported at fair value.

Receivables consist primarily of expenditure refunds and amounts due from other government units.

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The allowance is based on the pupil membership counts taken in February and September 2006.

Federal grant and certain State categorical funds are considered to be earned to the extent of expenditures made under their provisions and, accordingly, when such funds are received they are recorded as deferred revenue until earned. Amounts receivable are reported as due from other governmental units.

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are expensed using the consumption method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as **prepaid expenditures** in both the academy-wide and governmental fund financial statements. The cost of issuance of long-term obligations, which is only recorded in the academy-wide financial statements is being amortized on a straight-line basis over the life of the related obligation.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (continued)

Capital assets, which include land, buildings, equipment, and vehicles, are defined by the government as assets with an initial individual or aggregate cost of more than \$500. These assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of donation. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15-20	Years
Buildings and improvements	20-50	Years
Vehicles	5	Years
Furniture and equipment	5-15	Years

Long-term Obligations are reported as liabilities in the academy-wide financial statements. Bond issuance costs, premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method.

The difference between assets and liabilities is **Net Assets** on the academy-wide and fiduciary fund financial statements, and **Fund Balance** on the governmental fund financial statements. Net assets are reported in the following three categories.

Investment in capital assets, net of related debt as reported in the academy-wide financial statements, consists of capital assets, net of accumulated depreciation and further reduced by the outstanding balances of notes that are attributed to the acquisition, construction or improvement of those assets.

Restricted for specific use net assets consist of assets that have externally imposed constraints placed on them through regulations imposed by other governments.

Unrestricted net assets consists of assets that do not meet the two preceding criteria.

Reservations of fund balance in the governmental fund financial statements represent amounts that are not available for appropriation. **Designations** of fund balance represent tentative management plans that are subject to change.

Comparative data for the prior year has not been presented.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 BUDGETARY INFORMATION

The Academy is required by state law to adopt an annual budget on a basis consistent with generally accepted accounting principles for the general and special revenue funds. Prior to July 1, the budget is legally adopted by the Board of Education. Once approved, the budget can be amended by a majority of the Board. The last amendment to the budget was adopted on May 14, 2007. Budgets are passed at the function level and controlled by management at the object level.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at year-end and outstanding encumbrances, if any, are reappropriated in the next year. Encumbrances outstanding at the end of the year are reported as reservations of fund balance. There were no encumbrances outstanding at year end.

NOTE 3 CASH AND INVESTMENTS

State laws authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

School District cash is subject to different types of risk. This Academy is subject to risk as described below.

Custodial credit risk of bank deposits is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy only uses financial institutions which are evaluated to have an acceptable risk level. The FDIC insures a limited amount of the Academy's deposits. It is impractical for the Academy to have all deposits insured. At year end, the Academy had \$1,552.410 in funds deposited at banks, of which \$1,404,955 was uninsured and uncollateralized.

Investments are normally categorized to give an indication of the level of risk assumed, however certain amounts which are included in the uninsured and uncollateralized amount above represent a bank investment pool and is evidenced by book entry only. Management believes the investment complies with the investment authority noted above.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 CAPITAL ASSETS

	Balance July 1, 2006	Additions	Disposals and adjustments	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 132,754	\$ 0	\$ 0	\$ 132,754
Building and improvements	9,075,860	219,660	9,295,520	0
Total capital assets not being depreciated	\$ 9,208,614	\$ 219,660	\$ 9,295,520	\$ 132,754
Capital assets being depreciated:				
Building and improvements	\$ 0	\$ 9,505,440	\$ 0	\$ 9,505,440
Land improvements	0	83,799	0	83,799
Furniture and equipment:				
Furniture and equipment	1,627,739	272,622	0	1,900,361
Computers	157,064	505,094	0	662,158
Total furniture and equipment	1,784,803	777,716	0	2,562,519
Vehicles	71,841	37,455	0	109,296
Total capital assets being depreciated	\$ 1,856,644	\$ 10,404,410	\$ 0	\$ 12,261,054
Accumulated depreciation:				
Building and improvements	\$ 0	\$ 294,068	\$ 0	\$ 294,068
Land improvements	0	2,524	0	2,524
Furniture and equipment:				
Furniture and equipment	129,676	139,460	0	269,136
Computers	62,428	109,714	0	172,142
Total furniture and equipment	192,104	249,174	0	441,278
Vehicles	46,883	17,622	0	64,505
Total accumulated depreciation	\$ 238,987	\$ 563,388	\$ 0	\$ 802,375
Net capital assets being depreciated	\$ 1,617,657	\$ 9,841,022	\$ 0	\$ 11,458,679
Net capital assets	\$ 10,826,271	\$ 10,060,682	\$ 9,295,520	\$ 11,591,433

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 CAPITAL ASSETS (continued)

Depreciation expense was charged to activities of the Academy as follows:

Governmental activities:

Instruction	\$	31,945
Support services		<u>531,443</u>
Total governmental activities	\$	<u>563,388</u>

NOTE 5 DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements	\$ <u>9,912</u>	\$ <u>11,105</u>

NOTE 6 NOTES PAYABLE

State Aid Notes

The Academy issued a State Aid note for \$710,300 for additional cash flow purposes. Payments of approximately \$372,000, including interest at 5.50 %, are required in July and August 2007. This note was refinanced in August 2007 (see Note 10) .

The Academy issued a State Aid note for \$800,000 for additional cash flow purposes. Payments of approximately \$105,500, including interest at 7.75 %, are required from October 2006 through May 2007. This note is paid in full.

Total interest included in support service is \$73,560. Total interest including long-term was \$869,316.

NOTE 7 LONG-TERM OBLIGATIONS

The Academy issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy.

During the year ended June 30, 2003, the Academy purchased three vans for a cost of approximately \$75,000 by issuing long-term debt. Each of the three notes was for \$19,972 and requires payments of approximately \$ 384 including interest at 5.9%. The notes mature in March 2008.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 LONG-TERM OBLIGATIONS (continued)

In connection with the acquisition of the elementary facilities, the Academy entered into an agreement to purchase substantially all of the furniture of the facility for \$40,000. The agreement requires 13 monthly payments beginning March 1, 2006. The first 5 payments are for \$1,000 and the remaining 8 are for \$4,375. This agreement bears no interest and is paid in full.

In August 2005, the Academy issued \$11,865,000 of Public School Academy Revenue Bonds for the refinancing and construction of its future facilities. Significant details regarding this issue are as follows:

Description	Final Payment Due	Interest Rate	Annual Principal (000)	Ending Outstanding
2005 Serial bonds	November 2035	5.0 - 5.75%	\$185 - \$810	\$ 11,865,000

The Academy entered into an agreement for \$350,490 of computer equipment to be put in service July 1, 2006 which is, in essence, a financing arrangement. The agreement requires a down payment of \$100,000, and 3 additional annual payments of \$90,800. Interest has been computed at 4.23%. This agreement matures in 2009.

The Academy entered into a lease agreement for \$1,794,643 to finance certain equipment with a cost of \$1,845,903, less accumulated depreciation of \$201,433 which is, in essence, a financing arrangement. The terms are as follows:

Year Ended:	
2008	\$ 503,897
2009	503,897
2010	503,897
2011	136,752
	<u>1,648,443</u>
Amount representing interest	<u>(154,778)</u>
Present value of minimum lease payments	\$ <u>1,493,665</u>

During the year ended June 30, 2007, the Academy purchased a snow plow for a cost of approximately \$30,000 by issuing long-term debt. This \$30,000 note requires payments of approximately \$ 600 including interest at 7.25%. The note matures in November 2011.

During the year ended June 30, 2007, the Academy entered into an agreement with the City of Detroit Water Department to pay two liabilities over a long-term period in the amount of approximately \$3,000 and \$38,800. The agreements, which required no interest, required a 50% down payment plus a payment of \$83 over 18 months and \$787 over 24 months. The agreements mature in January 2009 and July 2009, respectively.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 LONG-TERM OBLIGATIONS (continued)

Long-term obligation activity can be summarized as follows:

	Notes
Beginning balance	\$ 13,969,112
Additions	70,827
Reductions	<u>(432,723)</u>
Ending balance	13,607,216
Amount due within one year	<u>(554,931)</u>
Amount due in more than one year	<u>\$ 13,052,285</u>

Annual debt service requirements to maturity for the above governmental note obligations are as follows:

	Principal	Interest	Total
2008	\$ 554,931	\$ 758,183	\$ 1,313,114
2009	740,695	723,134	1,463,829
2010	680,915	681,665	1,362,580
2011	347,821	649,992	997,813
2012	217,854	637,692	855,546
2013-2017	1,275,000	2,986,219	4,261,219
2018-2022	1,680,000	2,571,085	4,251,085
2023-2027	2,205,000	2,024,909	4,229,909
2028-2032	2,915,000	1,297,344	4,212,344
2033-2036	<u>2,990,000</u>	<u>355,925</u>	<u>3,345,925</u>
	<u>\$ 13,607,216</u>	<u>\$ 12,686,148</u>	<u>\$ 26,293,364</u>

NOTE 8 RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded insurance coverage since inception.

Federal programs

The Academy participates in numerous federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Academy has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectibility of any receivable at June 30 may be impaired. In the opinion of the Academy, there are no significant liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9 DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

The Academy provides pension benefits for substantially all of its employees through the Michigan Public School Employees' Retirement System Pension Plan (MPERS), a cost-sharing, multiple employer public employee retirement system. MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPERS issues a publicly available financial report which includes financial statements and required supplementary information. A copy of the report may be obtained by writing to MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671.

State legislation required that the Academy contribute 16.34% of covered payroll from July through September 2006 and 17.74% from October 2006 through June 2007. No employee contributions are required. Expenditures under this plan amounted to approximately \$445,000, \$355,000 and \$199,000 for the years ended June 30, 2007, 2006 and 2005, respectively.

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for health, dental and vision coverages.

On or after January 1, 1987 and before January 1, 1990, a MPERS member may have elected to contribute 4 percent of gross wages on a tax deferred basis to a "member investment plan" (MIP) that qualifies them for additional benefits. For these members, the contribution rate for wages received January 1, 1990 and later is permanently reduced to 3.9 percent. Employees first hired on or after January 1, 1990 will automatically be included in the MIP program with a graduated contribution rate of 3 percent to 4.3 percent of all wages. Two other differences between the MIP plan and the basic plan are that MIP members can retire at any age with thirty years of credited service or at age 60 with five years of service and the final average compensation period used is 3 years.

NOTE 10 SUBSEQUENT EVENT

The Academy issued a State Aid note for \$1,200,000 for additional cash flow purposes in August 2007. Payments of approximately \$138,000, including interest at 5.50%, will be required from October 2007 through May 2008.

The Academy issued two unsecured notes in October 2007 to meet cash flow requirements. The first for \$100,000 was repaid from the October State Aid payment including interest at 7.75%. The second for \$200,000 will be repaid from the November and December State Aid payments in approximately equal payments including interest at 7.75%.

DETROIT COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE GENERAL FUND

For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Local sources	\$ 22,400	\$ 40,900	\$ 77,989	\$ 37,089
State sources	5,623,588	5,913,105	6,002,323	89,218
Federal sources	572,245	580,504	526,949	(53,555)
TOTAL REVENUES	6,218,233	6,534,509	6,607,261	72,752
EXPENDITURES				
Instruction				
Basic programs	2,627,448	2,465,970	2,491,229	(25,259)
Added needs	432,663	424,983	239,227	185,756
Support services				
Pupil services	280,112	193,375	307,572	(114,197)
Instructional staff	131,130	618,756	558,561	60,195
General administration	411,735	340,725	343,870	(3,145)
School administration	450,905	515,450	602,804	(87,354)
Business services	151,128	190,435	156,237	34,198
Operation and maintenance	653,537	750,265	757,846	(7,581)
Pupil transportation	35,600	27,750	24,653	3,097
Central	37,431	318,560	339,957	(21,397)
Custody and care of children	12,400	22,203	16,701	5,502
Other facilities improvements	472,500	555,100	502,412	52,688
Debt service	451,350	550,000	555,514	(5,514)
TOTAL EXPENDITURES	6,147,939	6,973,572	6,896,583	76,989
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	70,294	(439,063)	(289,322)	149,741
OTHER FINANCING SOURCES (USES)				
Proceeds from debt	0	30,000	70,827	40,827
Prior period adjustments, nonmaterial	(10,000)	(43,000)	(44,319)	(1,319)
Operating transfers out				
Building and site	(100,000)	(146,200)	(146,125)	75
Debt service	(201,889)	(110,000)	(100,254)	9,746
Athletic activities	(131,505)	(135,835)	(137,000)	(1,165)
School lunch	(39,400)	(64,260)	(65,435)	(1,175)
TOTAL OTHER FINANCING SOURCES (USES)	(482,794)	(469,295)	(422,306)	46,989
NET CHANGE IN FUND BALANCES	\$ (412,500)	\$ (908,358)	(711,628)	\$ 196,730
FUND BALANCE, July 1, 2006			1,001,502	
FUND BALANCE, June 30, 2007			\$ 289,874	

DETROIT COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

June 30, 2007

		Special Revenue Funds		
		Athletic Activities	School Lunch	Total
REVENUES				
Local		\$ 16,047	\$ 3,390	\$ 19,437
State		0	4,838	4,838
Federal		0	89,069	89,069
TOTAL REVENUES		16,047	97,297	113,344
EXPENDITURES				
Current:				
Food services		0	162,732	162,732
Athletics		153,047	0	153,047
TOTAL EXPENDITURES		153,047	162,732	315,779
Excess of Revenues Over (under) expenditures		(137,000)	(65,435)	(202,435)
Other Financing Sources, transfer in		137,000	65,435	202,435
NET CHANGE IN FUND BALANCES		0	0	0
FUND BALANCES, July 1, 2006		0	0	0
FUND BALANCES, June 30, 2007		\$ 0	\$ 0	\$ 0

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

REPORT ON EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2007

DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY

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JUNE 30, 2007

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A Professional Corporation

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Detroit Community Schools, a Public School Academy
Detroit, Michigan 48223

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools, a Public School Academy (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting as items 2007-1 through 2007-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Item 2007-3.

We noted certain matters that we reported to the management of the Academy in a separate letter dated November 9, 2007.

The Academy's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford & Co.

November 9, 2007

A Professional Corporation

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Directors
Detroit Community Schools, a Public School Academy
Detroit, Michigan 48223

Compliance

We have audited the compliance of Detroit Community Schools, a Public School Academy (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to the management of the Academy in a separate letter dated November 9, 2007.

The Academy's responses to the findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Academy's responses, and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Academy as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford & Co.

November 9, 2007

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTORS NUMBER	APPROVED GRANT AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE JULY 1, 2006	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2007
U.S. DEPARTMENT OF EDUCATION								
Passed Through Michigan Department of Education								
Title I	84.010*							
2005-06		061530 0506	\$ 230,053	\$ 196,933	\$ 124,133	\$ 157,253	\$ 33,120	\$ -
2005-06 2% School Improvement		051550 0506	30,000	-	-	30,000	30,000	-
2005-06 Carryover		061530 0607	6,787	-	-	6,787	6,787	-
2006-07		071530 0607	258,839	-	-	88,407	157,454	69,047
Total Title I			525,679	196,933	124,133	282,447	227,361	69,047
Title V	84.298							
2004-05		050250 0506	4,633	4,633	238	238	-	-
2005-06		060250 0506	4,137	4,137	3,335	3,335	-	-
2005-06 Carryover		060250 0607	760	-	-	760	760	-
2006-07		070250 0607	2,539	-	-	2,539	2,539	-
Total Title V			12,069	8,770	3,573	6,872	3,299	-
Technology Literacy Challenge	84.318*							
Freedom to Learn		064280 5C	162,500	-	-	162,500	162,500	-
2005-06		064290 0506	3,813	3,813	3,114	3,114	-	-
2005-06 Carryover		064290 0607	605	-	-	605	605	-
2006-07		074290 0607	2,657	-	-	2,657	2,657	-
Total Technology Literacy Challenge			169,575	3,813	3,114	168,876	165,762	-
Improving Teacher Quality	84.367							
2005-06		060520 0506	35,821	31,816	7,895	11,900	4,005	-
2006-07		060520 0607	36,424	-	-	8,426	12,553	4,127
Total English Language Acquisition			72,245	31,816	7,895	20,326	16,558	4,127
Total Michigan Department of Education			779,568	241,332	138,715	478,521	412,980	73,174

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTORS NUMBER	APPROVED GRANT AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE JULY 1, 2006	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2007
U.S. DEPARTMENT OF EDUCATION (Continued)								
Passed Through Wayne County Regional Education Service Agency								
I.D.E.A. Cluster								
Flow-Through								
2005-06			\$ 30,450	\$ 30,450	\$ 3,045	\$ 3,045	\$ -	\$ -
2006-07			46,144	-	-	41,530	46,144	4,614
		84.027						
Total Wayne County Regional Education Service Agency			76,594	30,450	3,045	44,575	46,144	4,614
Total U.S. Department of Education			856,162	271,782	141,760	523,096	459,124	77,788
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Michigan Department of Education								
National School Lunch (Cluster)								
Total		10.555						
2005-06		061950	5,506	4,475	2,981	4,012	1,031	-
2006-07		071950	8,501	-	-	8,013	8,501	488
Free and Reduced, Section 11								
2005-06		061960	44,394	35,922	23,720	32,192	8,472	-
2006-07		071960	71,065	-	-	66,929	71,065	4,136
Total U.S. Department of Agriculture			129,466	40,397	26,701	111,146	89,069	4,624
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 985,628	\$ 312,179	\$ 168,461	\$ 634,242	\$ 548,193	\$ 82,412

See accompanying notes to Schedule of Expenditures of Federal Awards.

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 -

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of Detroit Community Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations".

NOTE 2 -

*Designates Major Program

NOTE 3 -

Detroit Community Schools had no expended funds of \$300,000 or more (Type A programs) for any programs. Therefore, Type B programs were tested, specifically, Title I and Technology Literacy Challenge. Detroit Community Schools did not qualify as a low-risk auditee because the year ended June 30, 2007 was the first year Circular A-133 was applicable. Therefore, 50% of total federal awards expended were required to be tested as major programs. Title I and Technology Literacy Challenge satisfied this requirement.

NOTE 4 -

Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Section Auditor's Report (R7120) and the Grant Auditor Report reconcile with this schedule.

NOTE 5 -

Reconciliation to financial statements:

Federal Revenue per Financial Statements	
General Fund	\$ 526,949
Special Revenue Funds	<u>89,069</u>
	616,018
Federal Revenue not Recognized on June 30, 2006	
Financial Statements Because not Received Within	
60 Days of Year end	(77,735)
Federal Revenue not Recognized on June 30, 2007	
Financial Statements Because not Received Within	
60 Days of Year end	9,911
Rounding	<u>(1)</u>
Expenditure Per Schedule of Expenditures of	
Federal Awards	<u>\$ 548,193</u>

DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: (unqualified, qualified, adverse, or disclaimer)

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Type of auditor's report issued on compliance for major programs: (unqualified, qualified, adverse, or disclaimer)

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? x yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.138	Technology Literacy Challenge

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes x no

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

(Continued)

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2007-1	<p>Finding Type – Significant Deficiency in Internal Control Over Financial Reporting</p> <p>Condition – Manually Prepared Disbursements</p> <p>Description – Manually prepared disbursements circumvent the established internal control system for expenditures. These disbursements are captured by the accounting system after the fact.</p>
2007-2	<p>Finding Type – Significant Deficiency in Internal Control Over Financial Reporting</p> <p>Condition – Lack of Control in Recording Cash Receipts</p> <p>Description – There does not appear to be a policy regarding the recording of receipts. The lack of adequate control could result in loss of revenues.</p>
2007-3	<p>Finding Type – Significant Deficiency in Compliance and Other Matters</p> <p>Condition – Title I paraprofessional was paid less than his contract amount.</p> <p>Description – The only full-time Title I paraprofessional was paid 24 pays of \$1,360 or \$32,640. The contract for this teacher indicates an annual salary of \$35,700. (Evidently payroll checks were processed for the correct amount, but the underlying contract was not amended.)</p> <p>Incorrect supporting documentation could cause problems with potential litigation with employees, etc. There is also an indication of lack of controls over supporting documentation.</p>

DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

(Continued)

Section III – Federal Award Findings and Questioned Costs

No matters to be reported.

DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2007

<u>CFDA NUMBER</u>	<u>FINDINGS</u>	<u>QUESTIONED COST</u>
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	Not applicable. The year ended June 30, 2007 is the first year Federal expenditures exceeded \$500,000.	
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**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

CORRECTIVE ACTION PLAN

AUDIT FINDINGS RESPONSE

JUNE 30, 2007

Ref#2007-1 – Manually Prepared Disbursements

Corrective Action – The manual check writing system has been eliminated with the establishment of the business office. Since checks are written on-site, there is no reason to have the manual system.

Ref# 2007-2 – Lack of Control in Recording Cash Receipts

Corrective Action - Effective July 1, 2007 the School established a 3-person business office to enhance the control of all areas of the School's finances. With this office in place, proper controls including the personnel will be in place, as follows:

1. Position 1 is for a Business Manager for personnel and executive services. This person will provide separation of duties between accounting and payroll. Some bookkeeping tasks, such as bank deposit preparation will be assigned on a limited basis in view of internal control. This position is also assigned the task of controlling all contracted employees and their related employee files.
2. Position 2 is for a full-time bookkeeper. This was a subcontracted, off-site service prior to July 1. This will allow for on-site check writing and purchase order control.
3. Position 3 is a replacement Director of Finance with Mr. Tilton relinquishing part of those duties, as he becomes the Co-Superintendent. This person is the auditing/accounting professional who has worked with the school since its inception. Bringing this position on-site allows for the overall financial control necessary for a satisfactory internal control system.

Ref# 2007-3 – Title I Teacher was paid less than His Contract Amount

Corrective Action – See response to Ref# 2007-2.

A Professional Corporation

November 9, 2007

To the Board of Directors and Management
Detroit Community Schools, a Public School Academy

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools, a Public School Academy (the Academy) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we consider to be a significant deficiency.

PURCHASE ORDER SYSTEM (PRIOR YEAR COMMENT)

The Academy currently does not use a purchase order (encumbrance) system. The use of a purchase orders helps ensure that the budget for expenditures is controlled according to the Board-approved budget. Without purchase orders, the likelihood of line-item expenditures exceeding their appropriations is increased.

We recommend the establishment of a purchase order system.

MANUALLY PREPARED DISBURSEMENTS (PRIOR YEAR COMMENT)

During the year ended June 30, 2007, the Academy's directors prepared a significant number of manual checks that were captured by the accounting system after the fact. Manually prepared disbursements circumvent the established internal control system for expenditures.

We recommend disbursements always follow the established internal control system.

To the Board of Directors and Management
Detroit Community Schools, a Public School Academy
November 9, 2007
Page 2

RECORDING CASH RECEIPTS (PRIOR YEAR COMMENT)

There does not appear to be a policy regarding the recording of cash receipts. (However, the majority of the Academy's cash receipts are received by electronic transfer or by check.)

We recommend that all receipts be logged then recorded in the accounting system, using a pre-numbered receipting system. Bank deposits should be made timely.

EMPLOYEE CONTRACTS DOCUMENTATION

Certain employee payroll disbursements were not supported by correct documentation. (Contract amounts differed from payroll calculations for paychecks.)

We recommend that all payroll disbursements be supported by correct documentation.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hungerford & Co.".

Hungerford & Co.